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NOVEMBER 2020

BURKINA FASO

This brief draws on the 2019 report "The Way Forward for Social Safety Nets in Burkina Faso," authored by Frieda Vandeninden, Rebekka Grun and Amina Semlali.

Reallocating Energy Subsidies Toward Social Safety Net Programs

- Social safety net program expenditure increased from 0.3 percent of GDP in 2005, to 2.3 percent in 2015, and to 2.7 percent in 2018[1]. However, it benefited the richest Burkinabe the most while having only a limited impact on the poorest segments of the population.
- ESMAP funding helped the government analyze costly energy subsidies, assess the distributional impact of removing those subsidies, and implement policy recommendations for a more inclusive and poverty-oriented social protection program.
- The Government of Burkina Faso is determined to reduce poverty and carbon emissions by implementing recommended reforms, as World Bank support continues to the second phase.

BACKGROUND

Over the past decade, Burkina Faso has experienced sustained economic growth driven by domestic factors such as consumption and investment on the demand side and services on the supply side, and export of commodities such as cotton and gold. This growth, however, has not benefited the majority of Burkinabe. Although the poverty headcount ratio has declined, the absolute number of poor has increased and extreme poverty is rampant in rural areas (World Bank 2016, SCD). Overall, 40.1 percent of the population in Burkina Faso live in poverty.

Social safety nets (SSN) are predictable transfers that help the poor and vulnerable sections of the population when economic growth is not sustainable and inclusive. SSNs in Burkina Faso have increased at a steady pace. Expenditure on SSNs increased from 0.3 percent of GDP

[1] 2015 estimate is SSN review "The way forward for social safety nets in Burkina Faso", authored by Vandeninden, Grun and Semlali (2019, available at http://documents.worldbank.org/curated/en/822521567052802222/Main-Report) and estimate for 2018 is based on activities reported in the Burkina Faso "CNPS" 2018 annual report, excluding contributory programs and general price subsidies.

in 2005 to 2.3 percent in 2015 and up to 2.7 percent in 2018. This increase indicated a growing government appetite for finding more effective methods of protecting the poor. Burkina Faso outspent other Sub-Saharan African countries on SSNs relative to GDP, but challenges remained.

THE CHALLENGE

The SSN system in Burkina Faso consists of a multitude of small programs, with the largest ones being mostly in-kind transfers. However, cash transfers for the poor and vulnerable segments of the population represent barely 1 percent of the total SSN expenditure.[2] There is a clear gap between the extent of SSN spending and the impact it would have if resources actually reached the poorest segments of the population. This gap called for an integrated approach to assess socioeconomic needs and better targeting. Key challenges to the present SSN system include:

The poorest benefit the least: SSN coverage is not commensurate with poverty. While 40.1 percent of the population is poor, only 2.6 percent of the entire population benefits from social assistance[3]. Notably, as Figure 1 shows, the second-richest quintile (Q4) benefits more in percentage terms from all SSN programs than does the absolute poorest quintile (Q1). While the EMC Survey 2014 did not capture the benefits repartition of all SSNs, it showed that benefits from scholarship and other transfers were mainly accrued by the top quintiles. Overall, about half the beneficiaries of food distribution, support from NGOs and government support in case of shocks, are relatively well-off (Figure 2).

Further, SSN coverage is misaligned with poverty by region. From a geographic viewpoint, data shows that


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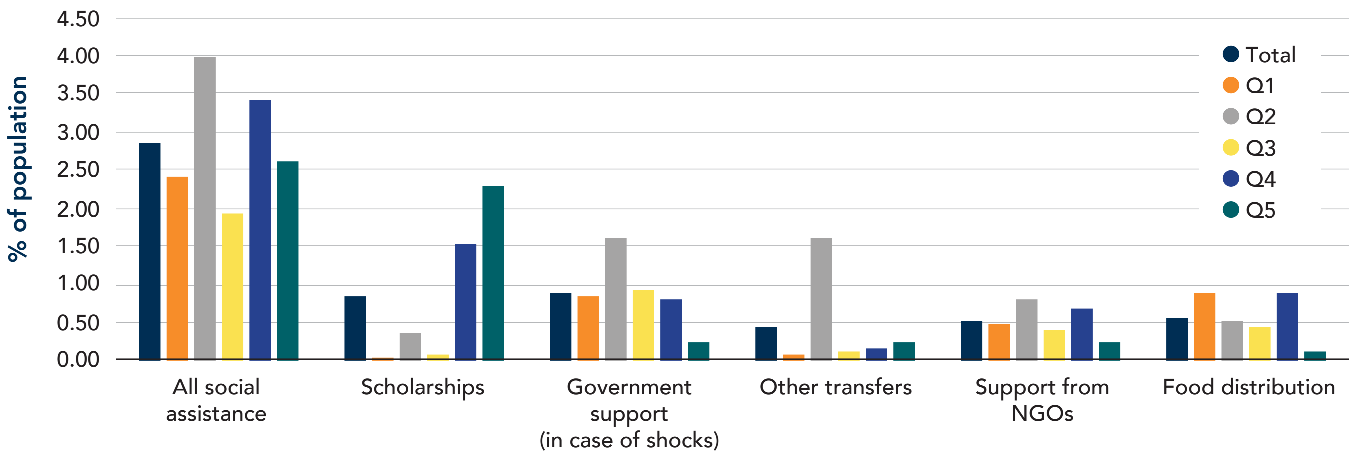
[3] Based on the latest data in the, Burkina Faso Continuous Multisectoral Survey (EMC) 2014. The SSN programs included in the survey consisted of scholarships, government support (in case of shocks), cash transfers, support from NGOs and food distribution.

FIGURE 1 • Social safety net coverage by type of program and quintile (Q1=poorest quintile, Q5=richest quintile)



the largest concentration of beneficiaries reside in the wealthier Central region. Only 17 percent of cash transfer beneficiaries reside in the country's three poorest regions—8 percent in the Nord region, 3 percent in Boucle du Mouhoun and 6 percent in the East. There is a clear need to improve targeting of SSNs toward the poor and vulnerable.

Vulnerable age groups are left inadequately protected: SSN coverage is not commensurate with vulnerability across a person's life cycle. For instance, only six of the country's main SSN programs serve the 0-5 age group. Further, only 2 percent of the country's children benefit from critical early childhood development (ECD) programs. There is an urgent need to use social protection expenditure to build human capital where it matters most: ECD, nutrition and literacy.

Energy subsidy expenditure is high: In 2016, energy subsidy expenditure as a percent of GDP was 0.36 percent for Liquefied Petroleum Gas (LPG), 0.23 percent for fuel and 0.33 percent for electricity. This subsidy mostly benefitted the richest sections of the population as the poor barely spent on energy items (Figure 3). These are relatively high figures when compared to the cost of the

FIGURE 2 • Social safety net targeting, by share of benefits and beneficiaries

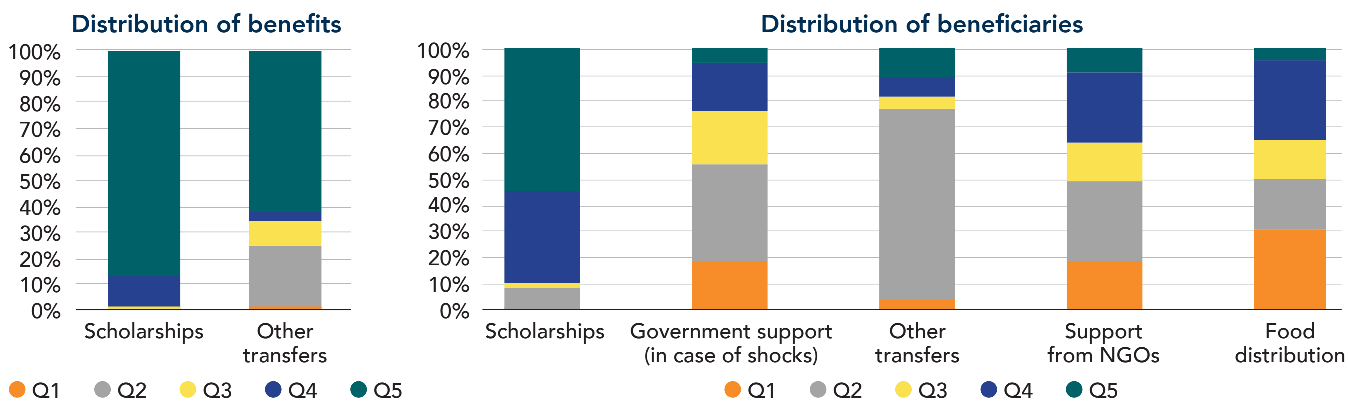


FIGURE 3 • Spending in CFA per Household (HH) on energy items i.e. electricity, LPG and fuel by decile

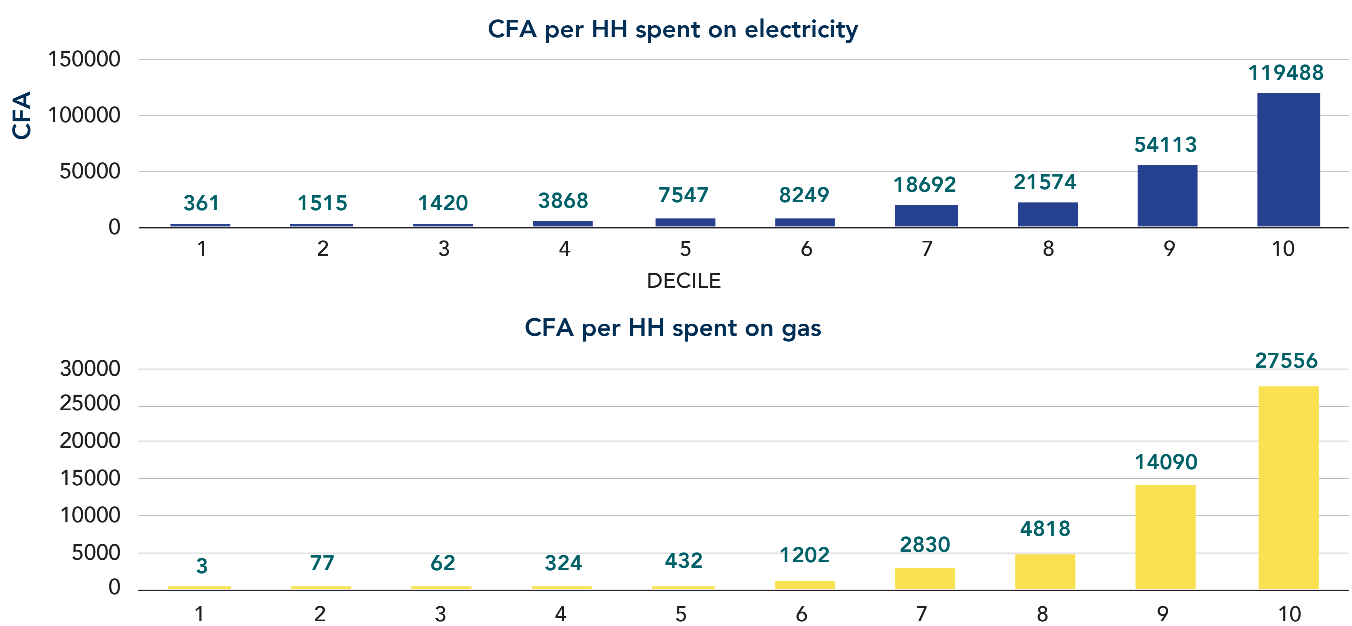
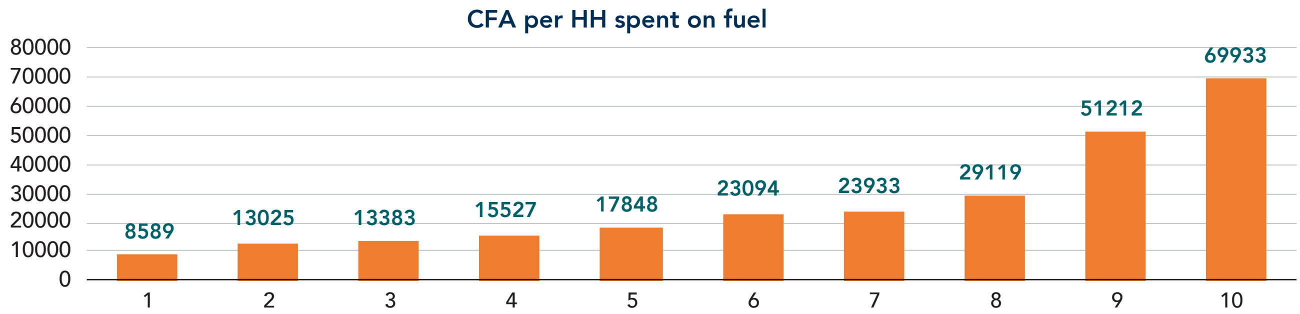


FIGURE 3 (cont.) • Spending in CFA per Household (HH) on energy items i.e. electricity, LPG and fuel by decile



largest SSN programs: school canteens are 0.3 percent of GDP and cash for the vulnerable is 0.01 percent of GDP.

THE RESPONSE

In 2013, the government implemented the ongoing Social Safety Net Project, supported partially by an International Development Association (IDA) credit for over $56 million. The Social Safety Net Project aims to provide income support to poor households and lay the foundations for an adaptive safety net system in Burkina Faso. It currently covers almost 600,000 poor individuals in the regions of North, Center-East, East, Center-West and the Sahel; and almost 30,000 in the cities of Ouagadougou and Bobo Dioulasso for the COVID-19 response. A pilot version has been evaluated rigorously and shown to reduce poverty and improve human capital significantly.

The project, supported by the World Bank and led by the Social Protection team, is fully aligned with the objectives of the government's Strategy for Accelerated Growth and Sustainable Development (SCADD) to (a) accelerate inclusive and sustained economic growth; (b) enhance governance to deliver social services more efficiently; and (c) reduce social, economic, and environmental vulnerabilities.

In 2016, the World Bank approved $100 million to Burkina Faso to support energy and tax reform programs. This amount included a $55 million loan and a $45 million grant from IDA. The reforms aim to enhance the financial viability of the energy sector; diversify energy sources by strengthening the sector's legal and institutional framework; and improve tax collection and the public procurement system. As a result of this support, significant progress was achieved in reduction of cross arrears between the SONABHY (Public Oil Importing Company) and SONABEL (State-owned Electricity Provider) down from CFAF 140 billion in 2016 to CFAF 64.2 billion in 2018. The financial performance of SONABEL also significantly improved (EBIDTA increased from CFAF 14 billion in 2015 to CFAF 40 billion in 2018). Significant improvement in diversification of energy sources was achieved with an increase in solar PV capacity (as a percent of total installed capacity) from 0 in 2016 to 15 percent in 2018 and increase in capacity of electricity interconnections for cleaner energy imports (percent of installed capacity) from 52 percent in 2015 to 82 percent in 2018, exceeding

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the target of 62 percent. With regard to strengthening the tax collection, VAT revenues increased from 6 percent of GDP in 2015 to 8.28 percent in 2018; non-VAT revenues also increased from 8 percent of GDP in 2015 to 10.21 percent in 2018.

In 2018, ESMAP supported the Social Safety Net Project with funding of $80,000 to support the critical need to analyze costly energy subsidies, assess the distributional impact of removing fuel subsidies, and inform policy recommendations for a more inclusive and poverty oriented social protection program in Burkina Faso. ESMAP support had two main components: an energy subsidy review and an assessment of the distributional impact of subsidy reform.

COMPONENT 1: ENERGY SUBSIDY REVIEW

Burkina Faso's current energy subsidies toward electricity, gas and petrol were reviewed using administrative data. The review aimed to assess the size of subsidies with respect to other social protection programs as well as their overall impact on the government budget. As stated earlier, a preliminary estimation of energy subsidies revealed that they were relatively high, with 0.36 percent of GDP for gas, 0.23 percent for oil subsidies and 0.33 percent for electricity in 2016 (not including electricity subsidies and losses in consumption taxes due to these subsidies).

The review of energy subsidies informed current government policy processes to be undertaken in the energy sector and also, more generally, the budget. Energy subsides were also viewed from the perspective of the overall redistribution policies, particularly with regard to SSN. The review also provided an opportunity to fill the large information gap on gas subsidies and to inform on potential reforms in this sector.

COMPONENT 2: DISTRIBUTIONAL IMPACT OF SUBSIDY REFORM

The second component involved assessing the distributional impact of energy subsidies at the microeconomic level, as well as the impact of their removal. This included:

- Estimating the distributional impact of removing subsidies on households' welfare i.e. impact of price increases through microsimulation, more specifically static simulations measuring the direct effect of reforms; and
- Simulating the introduction of alternative SSNs for a similar budget (according to different scenarios) to inform the social protection strategy.

A combination of survey data and administrative data was used to evaluate the impact of removing energy subsidies (focusing on LPG). The quantity of each energy item consumed was estimated using the information available on consumption expenditure and the price of each energy item by province (collected quarterly in the EMC survey). For the latter step, household total expenditures were recomputed, accounting for the increase in price of gas, using the market price at the province level.

The results of the microsimulation showed that:

- **A reallocation of energy subsidy expenditure toward targeted social safety nets would have a positive impact on the poor.** The regressiveness of energy subsides was confirmed by the analysis, as the average spending for each energy product increased with households' welfare (Figure 4).

- **Given that the distribution of energy consumption is regressive, the removal of gas subsidies would barely or not at all affect the poor negatively.** Rather, as shown in Figure 4, it would mainly impact the welfare of the richest quintile. Poverty will not be impacted, as post-reform simulated poverty is still 40.1 percent.

- **Fiscal space could open up.** The removal of gas subsidies alone would generate a total savings of CFAF 12.9 billion or 0.36 percent of GDP, which is close to the total cost of a key SSN, the school feeding program (CFAF 19 billion). Savings from phasing out subsidies and redirecting that expenditure toward SSNs, and to a lesser extent toward renewable energy, would greatly benefit the poor (Figure 5)[4]. Further, redirecting the savings from a gas phase-out toward cash transfers for the poor would lead to a reduction in the poverty gap and headcount (from about 1 percentage point).[5]

[4] The poverty gap reflects the intensity of poverty, by measuring the difference between household welfare and the poverty line. It represents the average income shortfall from the poverty line in the country.

[5] The average transfer per capita (CFAF 1,757) is relatively small given the large number of poor individuals (more than 7 million). It allows only those close to the poverty line to escape poverty. Simulations of alternative scenarios focusing on specific sub-groups of poor would allow a greater poverty impact.

FIGURE 4 • Impact of subsidy removal on population well-being (CFA)

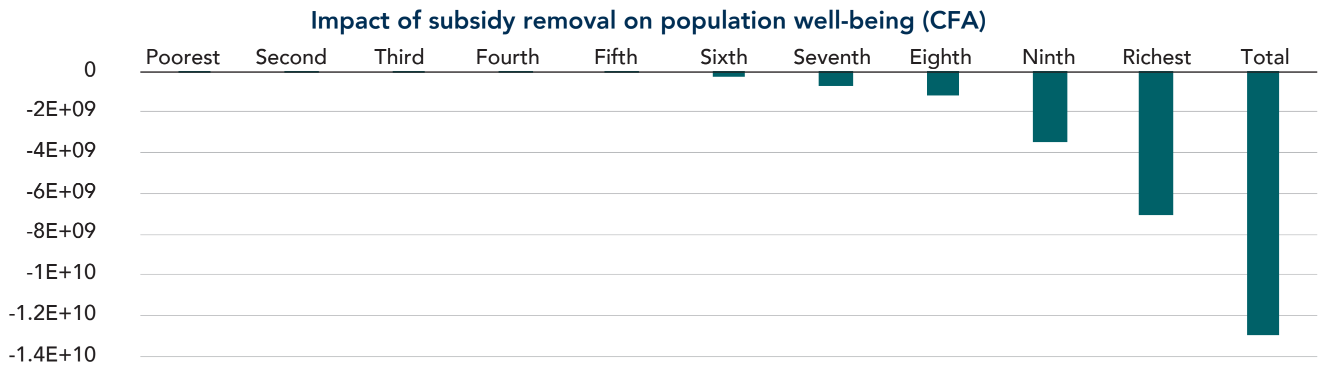

FIGURE 5 • Simulation results: Cost and poverty impact of gas subsidies phase-out and alternative SSN program

	With subsidies	Without subsidies	With SSN transfer
	Current situation, gas consumption subsidized	Situation after gas subsidy removal. Savings from removal not spent	Savings divided equally among the poor, i.e. those where pcexp < 153530 CFA
Total cost (CFA)	13 billion	0	13 billion
Beneficiaries	**97.244**	**0**	**7.375.787**
Transfer amount (CFA)	-	-	1757
Headcount	**40.1%**	**40.1%**	**39.2%**
Poverty gap	0,09666	0,09668	0,09215
Gini	0,35553	0,35402	0,35115

RECOMMENDATIONS

The SSN system in Burkina Faso faces many challenges. Reforming non-progressive spending, such as energy subsidies, would free up some fiscal space to strengthen supports to the poor and vulnerable. To help the Government of Burkina Faso improve and strengthen the SSN programs, the SSN review (2019) highlighted the following recommendations:

- Establish a sound, practical, and politically viable targeting system to ensure SSN programs reach the poor and the vulnerable.
- Move away from regressive spending, build a national registry, and shift spending away from universal subsidy programs toward programs that target the poor.

OUTCOME

In addition to informing a debate on feasible reform and policy options based on the identified areas of improvement, a direct outcome of the review was that it led to the government approving a legal order ("*arrêté*"), that is now in force. This legal order, adopted by the country's Council of Ministers on March 13, 2020, establishes targeting principles to reach the extreme poor. Its implementation will be ensured by the ongoing emergency DPO. This is the first milestone toward eradicating the poverty gap.

LOOKING FORWARD

With improved targeting of allocated resources, Burkina Faso's poverty gap could, in fact, be eradicated with current levels of financing. The size of the poverty gap equals 2.26 percent of GDP, which is approximately the amount spent on SSNs. The World Bank is continuing its support in the form of multiple projects namely, Additional Financing for Social Safety Net Project (P160371), Scale-Up and Responding to the Needs of Refugees and Host Communities (P169252) and Adaptive Shock-Responsive Cash Transfers to Affected Regions (P169252 and P169252).

Given that it is difficult for Burkina Faso to create further substantial fiscal space, it is more realistic to reallocate expenditures from less efficient programs before considering a budget increase. Should the government choose to pursue energy subsidy reduction, it will be necessary to prepare an effective communication strategy which fosters public understanding and acceptance of energy subsidy reform.

CONCLUSION

With focused and courageous policy decisions, several issues related to the Burkinabe social protection system could be converted into opportunities. By regaining the fiscal space, the government could cover the country's poor with an effective and efficient safety net. This end is achievable simply by realigning and better targeting existing expenditures, as illustrated by the simulation of the gas subsidy reallocation. This important lesson from Burkina Faso could benefit a global audience of policy makers determined to reduce poverty (and carbon emissions).

ABOUT ESMAP

The Energy Sector Management Assistance Program (ESMAP) is a global knowledge and technical assistance program administered by the World Bank. It provides analytical and advisory services to low- and middle-income countries to increase their know-how and institutional capacity to achieve environmentally sustainable energy solutions for poverty reduction and economic growth. ESMAP is funded by Australia, Austria, Denmark, the European Commission, Finland, France, Germany, Iceland, Italy, Japan, Lithuania, Luxembourg, the Netherlands, Norway, the Rockefeller Foundation, Sweden, Switzerland, and the United Kingdom, as well as the World Bank.

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